

VZCZCXYZ0000
RR RUEHWEB

DE RUEHBS #3196 2641406
ZNR UUUUU ZZH
R 211406Z SEP 06
FM AMEMBASSY BRUSSELS
TO RUEHC/SECSTATE WASHDC 3142
INFO RUCPDOG/USDOC WASHDC
RUEATRS/DEPT OF TREASURY WASHDC

UNCLAS BRUSSELS 003196

SIPDIS

SIPDIS

STATE FOR EB/IFD, EUR/ERA AND EUR/UBI
Treasury for OASIA/OIN - Atukorala
USDOC FOR 3133/USFCS/OIO/EUR

E.O. 12958: N/A

TAGS: [EFIN](#) [EINV](#) [ELAB](#) [BE](#)

SUBJECT: 883 Million Euro Hole in 2006 Belgian Budget

Ref: (A) 05 Brussels 3788 (B) Brussels 574

(C) Brussels 1095 (D) Brussels 1201

11. (U) Summary. Belgium faces a quick scrubbing of its FY 2006 budget late in the year after revenues did not keep pace with projections and a technical gaff resulted in a 883 million euro overestimate of tax revenues. Government critics are faulting the coalition government's history of last minute window dressing to achieve balanced budgets for seven years running. The private sector is concerned they may be tapped for extraordinary contributions. The federal government is on the defensive in the runup to nation-wide local elections October 8 and a federal election coming up in the Spring. End summary.

12. (U) The GOB's planned triumphant march into a seventh year of balanced budgets is in disarray following unforeseen developments. Despite claiming that Belgian GDP growth in 2006 will reach 2.7 percent, the highest in five years, returns have fallen behind and risk upsetting the carefully balanced budget the federal government planned. Earlier budget reviews tinkered with revenue enhancements and cuts (refs B-D), but claimed that an equilibrium was still within reach. Now the news is out that some programmed revenues will fall far short of estimates. Among these, the fiscal amnesty program to encourage repatriation of Belgian capital held abroad, which in 2004 yielded over 800 million euros to the treasury, in its second incarnation this year has so far yielded practically nothing (4.4 million euros). Even assuming all pending fiscal amnesty applications are finalized, 20 million euros falls far short of the 400 million first budgeted.

13. (U) More troubling was the news released September 13 that, due to a computer error in the Belgian Inland Revenue Service office last May, the Federal 2006 budget had been calculated using a 883 million euro overestimate of personal income tax revenue. Finance Minister Didier Reynders tried to minimize the issue publicly, claiming the error would have no impact on taxes or benefits to taxpayers and was "only a budgetary question". For Budget Minister Freya van den Bossche this incident is the third embarrassment during her eleven months as budget minister, following her poor handling of an advance tax payment by petroleum companies and her inability to explain the budget during a parliamentary session.

14. (U) Opposition party CD&V (Christian Democrat) wasted no time in faulting the coalition government of Liberal and Socialist parties for the mess. The opposition had regularly decried last-minute fixes to pull previous budgets into balance; the "computer error" and a new report

from the Federal Accounting Office added credibility to these charges. According to the Accounting Office, government one-time actions from 2000-2004 to balance the budget ? such as selling government properties to lease them back and taking over multi-billion euro pension funds and assuming their future obligations, has resulted in 14 billion euros of costs pushed into the future. Politicians from regional governments in Flanders and Wallonia all insist the budget not be balanced at their expense. (In Belgium the majority of taxation is levied at the federal level and shared with regional authorities after laborious negotiations.)

¶5. (SBU) Prime Minister Guy Verhofstadt maintains that the new budgetary shocks will require only minor adjustments. He was already talking about finding another 4 billion euros to keep the 2007 budget in the black; he now must find almost 4.9 billion in savings, either through cutting programs, cutting contributions to regional and municipal governments, or finding new sources of revenue. Business sectors such as pharmaceutical manufacturers and petroleum suppliers are worried they may be hit up for extraordinary contributions. Telecom operator Belgacom (majority-owned by the GOB) has already been asked to cough up a 50 million euros ?interim dividend?. The government seemed to be scraping the barrel when it announced that the Belgian Embassy in Tokyo would be sold for over \$300 million to a developer; Belgium will ultimately receive in return the top two floors of the high-rise structure to be built on the site for its diplomatic mission.

¶6. (SBU) The smoke and mirrors the opposition has long criticized may be nearing an end: sums that need to be (re)covered are simply getting too big.

Korologos